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C O N F I D E N T I A L SECTION 01 OF 02 BUDAPEST 000281

SIPDIS

DEPT FOR EUR/CE JAMIE LAMORE

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TAGS: [PGOV](#) [PREL](#) [EAIR](#) [EINV](#) [EFIN](#) [RU](#) [HU](#)
SUBJECT: HUNGARY: MALEV, AN EU CARRIER WITH RUSSIAN
FINANCING AND AN UNCERTAIN FUTURE

REF: A. BUDAPEST 135
[1](#)B. BUDAPEST 276

Classified By: Acting P/E Counselor JMartinson, reasons 1.4 (b and d)

[1](#)1. (SBU) SUMMARY. On March 18, the nearly bankrupt Hungarian airline, Malev, received a life-saving \$13.6 million cash infusion from Russian-owned bank, Vnyshekonombank (VEB). Although Hungarian representation increased slightly on the company's board of directors, this latest addition to VEB's investment and 'financed' ownership of the Hungarian national carrier raises questions as to Malev's qualifications as an EU carrier. The Hungarian State Holding Company, scrambling for solutions, is anxious about Malev reverting back to State ownership. End summary.

FOLLOW THE MONEY

[1](#)2. (C) After Malev's stockholders meeting on March 18, the company announced it will receive a \$13.6 million cash injection to stabilize its solvency. This infusion comes from Malev's minority shareholder, VEB, one of the three largest Russian banks. Malev currently carries more than \$45 million in debt and is two months behind in paying salaries. In addition to the \$13.6 million temporary relief, AirBridge (VEB) committed to further financing Malev, but did not provide details.

[1](#)3. (C) VEB controls 99.9 percent of AirBridge (the company that owns Malev) after recently purchasing 49 percent of AirBridge shares from Russian business man, Boris Abramovich, and financing the other 51 percent of shares now held by one Hungarian. VEB, chaired by Russian Prime Minister Putin, is often the GOR's preferred financing vehicle for foreign investments.

[1](#)4. (C) During the general assembly, the ownership structure of AirBridge was slightly revised following an agreement reached between the Hungarian Finance Minister Janos Veres, Russian PM, Putin, and Russian President, Medvedev during bi-lateral talks in Moscow on March 10. Previously, 51 percent of AirBridge shares were owned by two private Hungarian investors, Kalman Kiss and Magdolna Kolto, while VEB maintained 49 percent. Surprisingly, Kolto assumed all of the remaining 51 percent--leaving Kiss out. The move countered what acting Chief Executive Officer (CEO), Geza Fehervary, had predicted in a meeting with the Ambassador on February 18 (ref A). Fehervary had predicted either new Hungarian individuals, or a Hungarian company, would assume the 51 percent ownership, with the Hungarian Development Bank providing financing.

GOH INVOLVED WITH LEADERSHIP, NOT FINANCING

14. (SBU) Though GOH does not plan to give financial support to Malev in the near future, the AirBridge board of directors, changes reflects slightly increased GOH involvement. The CEO of the Hungarian State Holding Company (MNV), Mikos Tatrai, and Finance Ministry official, Csaba Nagy, were both appointed to the board.

15. (SBU) On April 2, EconOff met with an executive director from the Hungarian State Holding Company (MNV), Zoltan Kamaras and the senior Malev portfolio manager, Krisztina Orztrovszky. They acknowledged the less-than-transparent appearance of the current Malev financing structure (i.e. privatized EU airline with complete Russian bank financing). According to MNV, AirBridge is faltering on two of its 2007 privatization contractual obligations. The company is far behind on interest payments for State-guaranteed \$90 million loans, and still maintains a \$20 million balance on the European Investment Bank loan. Evaluating these loans and the estimated \$68 million required to operate in April, MNV is vexed about Malev's future.

NO CLEAR STRATEGY

16. (C) Continuing, Kamaras commented that "the lack of

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strategy for the past seven to eight years put Malev in this condition." Dreading a State reacquisition of Malev, he said "negotiating with VEB could take as long as six months," and as AirBridge was the only serious bidder on the privatization contract, attempting to re-solicit may not solve anything. With the government focused on the upcoming parliamentary vote on a new Prime Minister, April 14 (ref B), any decision on the Malev situation will most likely be on hold. (Comment: Kamaras appeared almost desperate as he pitched U.S. investment in Malev to EconOff as a potentially excellent solution. End comment.)

17. (C) COMMENT: Facing significant challenges during the current economic crisis, the Malev case highlights Hungary's continued vulnerability to targeted investment by Russian financial institutions. While MNV is relieved that VEB is keeping the airline afloat, Malev maintains its air rights as an EU carrier despite the almost 100 percent financing from Russian financial sources. If this becomes an issue within the EU, Malev may face restrictions on operations within the EU structure, further exacerbating its financial woes. Currently, a clear future strategy for Malev, either from the GOH or the company's Board of Directors, appears lacking.

18. (SBU) Embassy Budapest thanks Embassy Moscow for its contribution to this cable.
Levine